**Resolution No. 391/2008 of the
Polish Financial Supervision
Authority**

of 17 December 2008

on issue of Recommendation S (II) concerning good practices related to mortgage-secured credit exposures

Pursuant to article 137 point 5 of the act of 29 August 1997, Banking law (consolidated text Journal of Laws of 2002. No. 72, item 665 as amended) and article 11 item 1 of the act of 21 July 2006 on financial market supervision (Journal of Laws, No. 157, item 1119 as amended) the following is adopted:

§ 1. Recommendation S (II) is issued concerning good practices related to mortgage-secured credit exposures, which constitutes an appendix to this resolution.

§ 2. The recommendation referred to in § 1 becomes effective as of 1 April 2009.

§ 3. The resolution of the Bank Supervision Commission of 15 March 2006 concerning the issue of Recommendation S on good practices related to mortgage-secured credit exposures.

§ 4. The resolution is subject to publication in the Official Journal or the Financial Supervision Authority.

§ 5. The resolution becomes effective as of its adoption, except for § 3, which becomes effective as of 1 April 2009.

On behalf of the Polish Financial Supervision Authority
Chairman of the Polish Financial Supervision Authority
Stanisław Kluza

Financial Supervision Commission

Recommendation S (II)

concerning good practices related to mortgage-secured credit exposures

Warsaw, 2008

I. Introduction

This document is issued pursuant to article 137 point 5 of the Banking Law and article 11 item 1 of the act on financial market supervision and is a collection of good practices concerning mortgage-secured credit exposures.

The risk related to the portfolio of mortgage-secured credit exposures may have a significant impact on the financial standing of the bank. The direct threat resulting from the fact that banks finance undertaking in the real estate market may include factors related to:

1) lack of long-term experience of market participants in Poland,
2) difficulties in evaluation of the loss ratio of the mortgage credit portfolio and low efficiency of pursuing claims by the banks,
3) insufficient quality of internal bank regulations in scope of risk control of mortgage-secured credit exposures, including in particular relating to their current monitoring, limit definition and term structure analysis.
4) mismatch between the term structure of liabilities and term structure of assets (long-term financing of assets with short-term liabilities),
5) lack of procedures concerning the foreign exchange risk and interest rate risk covered by the customer,
6) limited scope of procedures applied by the banks concerning the current monitoring of value and quality of securities,
7) low quality of real estate valuations resulting, among others, from lack of statistic data concerning the real estate market and mortgage liabilities portfolio, including in particular from lack of real estate value databases,
8) malfunctioning land and mortgage register system,
9) unregulated property rights issues of many real estates,
10) lack of developed standards in scope of social aspects related to the debt collection and security execution,
11) poorly developed procedures related to customer relations.

The above issues relate in particular to the banks financing the real estate market, however they also refer to a great extent to financing of other areas where the security takes a form of mortgage. **Therefore, these recommendations are not limited only to the area of real estate financing, but should be applied to all credit exposures secured by a mortgage or where the mortgage will be the target security.**

The real estate financing activity is or gradually becomes for many banks one of the basic areas of operation. However, due to: the value of accumulated assets, policy, experience and level of competition at a given market, there are significant differences between banks concerning the value, quality and composition of the portfolio of credit exposures secured by a mortgage.

The credit policy of banks should therefore be a resultant of regulations and limits determined by supervisory authorities and internal bank standards.

Despite many years of experience, many countries still lack harmonized standards and requirements concerning the concept of comprehensive approach to management of the portfolio of mortgage-secured credit exposures.

Similar trends could also been noticed in Poland. However, the growing share of the portfolio of mortgage-secured credit exposures in receivables from non-financial sector and the related risk come to form the grounds to develop a set of recommendations which should be implemented at the level of particular bank units and as part of an integrated approach to the risk of the portfolio of mortgage-secured credit exposures Poland-wide.

The recommendations refer to the following areas:

1) management,
2) risk control,
3) foreign exchange risk and interest rate risk of the debtor,
4) securities,
5) relations with customers.

The following recommendations should be considered as particularly important:

1) **Recommendation 1 - specifying the terms of accepting, implementing and controlling the policy concerning the management of portfolio of mortgage-secured credit exposures.**
2) **Recommendation 6 - indicating the need for the bank to develop specific tools for the correct measurement of risk related to mortgage-secured credit exposures.**
3) **Recommendation 7 - containing remarks about the nature and scope of internal concentration limits maintained by the banks.**

4) Recommendation 8 - indicating the need to adopt the term structure of liabilities to the term structure of assets.

5) **Recommendations 11 and 12 - indicating the importance of regular analysis of the foreign exchange risk and interest rate risk incurred by the debtor.**
6) **Recommendations 13 and 15 - indicating the need to analyse the risk related to the real estate serving as the security of the credit exposure (13) and appropriate verification of its value (15).**

The recommendations below form the framework for correct identification of management and supervision of risk of the mortgage-secured credit exposures and are a collection of recommendations for internal control system which should, directly and indirectly, provide for an integration of the recommendation as part of all the processes related to mortgage-secured credit exposures.

Excluding the areas where due to their operational specificity some banks were treated differently than the rest, all recommendations relate directly to universal banks, cooperative banks and mortgage banks, unless the scope of recommendation was separately regulated by way of an act on mortgage bonds and mortgage banks and acts of lower rank issued on its basis. The exclusion referred to above relates most of all to banks significantly involved in mortgage-secured credit exposures, on which additional requirements have been imposed in addenda to particular recommendations. The following should be mentioned:

1) Recommendation 5, point 2.1.2. - forming of an organizational unit or group of persons whose only task would be to monitor the portfolio of mortgage-secured credit exposures. The above recommendation does not relate to banks specializing in the discussed activity, in case of which such separate unit would be pointless.
2) Recommendation 7, point 2.3.4. - the need to use extreme condition tests to determine

internal limits.

3) Recommendation 8, point 2.4.2. - the need to make a detailed analysis of long-term solvency at least once a year.
4) Recommendation 11, point 3.1.6. and Recommendation 12, point 3.2.4 - the need to conduct, at least once a year, extreme condition tests in scope of impact of the foreign exchange risk and interest rate risk borne by the debtor on the quality of the portfolio of mortgage-secured credit exposures,
5) Recommendation 17, point 4.5.2. - need to analyse, using extreme condition tests, the impact of sudden changes of real estate values on the portfolio of mortgage-secured credit exposures owned by the bank.

Many provisions included in the recommendations specifically emphasizes the importance of building databases relative to the real estate market (both internal and external). Operation of such databases may be helpful to a large extent in creating and verifying real estate valuations and therefore, it may contribute to the improved quality of mortgage securities held by the bank. The banks should use their own databases or external databases if they do not have their own databases. Respective guidelines are included in Recommendation J of 20 July 2000 concerning the creation of databases relative to the real estate market by banks.

All the provisions of the recommendation, unless presented otherwise, refer to both residential and commercial real estates. Therefore the term of significant commitment and mortgage-secured credit exposures (explained in the glossary) shall be directly referred to the financial commitment of banks related to commercial and residential real estates.

On the other hand, the recommendations do not directly refer to areas covered by other regulations, such as: capital requirements, foreign exchange risk and interest rate risk incurred by the bank, solvency, etc. These issues were covered only in scope necessary for the application of a given recommendation.
The Financial Supervision Authority expects that these recommendations will be implemented by the banks at the latest by 1 April 2009, with reservation that point 5.2.4 will be implemented not later than by 1 July 2009. At the same time, it is stressed that by 31 March 2009, it is recommended to apply the provisions of Recommendation S.

[1] Definition of banks significantly committed in mortgage-secured credit exposures is included in the glossary.

Glossary

Relative to the recommendations

1. **Database** - shall mean internal databases and external databases to which the bank has access, allowing to collect and process data on the real estate market.
2. **Credit exposure** - shall mean the balance-sheet receivables for credits and loans, purchased liabilities, cheques and bills of exchange, executed guarantees, other liabilities of similar natures and granted off-balance-sheet liabilities.
3. **Foreign exchange credit exposure** - credit exposure the PLN value of which is made dependent on the fluctuations of foreign exchange rates.
4. **Mortgage-secured credit exposure** - shall mean the credit exposure in case of which a security has already been established in form of mortgage or such security is the target security. In case of credit exposures which jointly meet the conditions below:

   a) related to the financing of areas other than real estate,
   b) apart from a security in form of mortgage, they are secured by other sureties,

   credit exposures shall be treated as mortgage-secured credit exposures, if they have the following features:

   a) the initial maturity is longer than three years, and
   b) the mortgage is or will be the dominant surety and the change of value of the real estate forming the security may have a significant impact on the valuation of the credit exposure.

5. **Individually significant credit exposure** - shall mean the credit exposure in case of which the change of value may have a significant impact on the bank's financial result. The bank is obligated to define which credit exposures are individually significant for it. However, independently from internal definitions of the bank, exposures the value of which exceeds the equivalent of EUR 3 million or which are more than 5% of the bank's own funds shall be considered as individually significant credit exposures.

6. **Dominant security** - shall mean a security in the form of mortgage the share of which amounts to more than 50% of the initial value of a given credit exposure.

7. **Significant commitment to mortgage-secured credit exposures** -
   shall mean the bank's commitment to the mortgage-secured credit exposures (valuation according to the balance-sheet value) which amount to more than 10% of the balance-sheet sum or more than 20% of the credit portfolio (valuation according to the balance-sheet value).

8. Total cost of credit - shall mean the total amount of all interest, commissions and other fees the borrower must cover with relation to the credit, loan or other product being obtained. **LtV ratio** - this ratio expresses the relation of the credit exposure value to the market value of the real estate which secures it. In case of mortgage banks, this ratio expresses the relation of the credit exposure value to the mortgage lending value of the real estate which secures it.

10. **Market value of the real estate** - shall mean the value of the real estate defined

according to article 151 of the act of 21 august 1997 on real property management (Journal of Laws of 2004

11. 261, item 2603, of 2004 No. 130, item 1087, No. 169, item 1420, No. 175, item 1459 and No. 281, item 2782).

12. **Mortgage lending value** - shall mean the value of the real estate defined according to article 2 point 1 of the act of 29 August 1997 on mortgage bonds and mortgage banks (Journal of Laws of 2003 No. 99, item 919, of 2005 No. 184, item 1539 and No. 249, item 2104).
13. **Consumer** - shall mean a consumer in the meaning of article 22^1 of the act of 23 April 1964 - Civil Code (Journal of Laws of 1964 No. 16, item 93 as amended).
14. Currency spread - difference between the sale rate and the purchase rate of the foreign currency announced by the bank in the foreign exchange rate table.

Recommendations

I. Management

1.1. Recommendation 1

The management board of the bank is responsible for adopting a policy of management of the risk of mortgage-secured credit exposures portfolio. The mortgage-secured credit exposures risk management policy should reflect the level of bank's acceptance for the risk related to this portfolio.

1.2. Recommendation 2

The supervisory board, within its functions, should supervise the application of the mortgage-secured credit exposures portfolio management policy prepared and approved by the management board of the bank.

1.3. Recommendation 3

The management board of the bank should appoint persons responsible for implementation of the policy of mortgage-secured credit exposures portfolio risk management.

1.4. Recommendation 4

The management board of the bank should conduct periodic evaluations of adopted policy in scope of mortgage-secured credit exposures and modify it in case new circumstances occur. The management board of the bank should inform the supervisory board about the results of the evaluation conducted.

II. Risk control

2.1. Recommendation 5

The bank should have systems for constant monitoring of the entire portfolio of mortgage-secured credit exposures, with special consideration taken of procedures that ensure that both internal and external regulations requirements are met.

2.2. Recommendation 6

The bank should have IT systems, databases and analytic tools allowing to measure the level of the risk related to mortgage-secured credit exposures.

2.3. Recommendation 7

The bank should have internal limits relating to the entire portfolio, particular types of mortgage-secured credit exposures and entities as well as their groups. These limits should take into consideration the differentiation of both credit exposures and securities.

2.4. Recommendation 8

The bank should analyse in detail the term structure of sources of financing and adapt it to the structure of assets.

2.5. Recommendation 9

In the bank's organizational chart, the following structures should be separated:

- related to canvassing of customers and sales of offered products,
- related to direct analysis of credit applications, risk evaluation and making the credit decision, as well as monitoring of mortgage-secured credit exposure during its term,
- related to the verification of adopted control procedures.

2.6. Recommendation 10

The bank should control on an ongoing basis whether all the terms of the contract are met by the customer and whether funds paid by the bank are used according to the contract.

III. Foreign exchange risk and interest rate risk of the debtor

3.1. Recommendation 11

The bank should regularly analyse the impact of exchange rate fluctuations on the credit risk incurred by the bank.

3.2. Recommendation 12

The bank should regularly analyse the impact of interest rate fluctuations on the credit risk incurred by the bank.

IV. Securities

4.1. Recommendation 13

In case of mortgage-secured credit exposures the bank should analyse analyze both the debtor's risk and the risk related to the real estate which forms the security.

4.2. Recommendation 14

The bank should ensure that the value of the security of a mortgage-secured credit exposure be sufficient during the whole term of the contract.

4.3. **Recommendation 15**

The bank should have appropriate procedures and tools used to verify and update the value of real estates which form the security of the credit exposures held by the bank.

4.4. Recommendation 16

The bank should monitor on a continued basis the changes occurring on the real estate market, and at least once a year, it should conduct a verification of the value of the real estates which form a security of the credit exposures held by the bank.

4.5. Recommendation 17

The bank should have appropriate procedures allowing to undertake quick prevention measures in case unforeseen events occur which result in a decrease of the value of the real estates which form the security of the credit exposures of the bank.

4.6. Recommendation 18

Special attention should be paid to those cases where the value of the real estate depends to a large extent to the financial standing of the debtor or the financial standing of the debtor depends largely on changes in the real estate value.

V. Relations with customers

5.1. Recommendation 19

The bank should make all efforts to ensure that the information communicated to the customers are understandable, unequivocal and legible.

5.2. Recommendation 20

In relations with customers, in the operational area related to mortgage-secured credit exposures, the bank should apply the principles of professionalism, reliability, diligence and best knowledge.

I. Management

1.1. Recommendation 1

The management board of the bank is responsible for adopting a policy of management of the risk of mortgage-secured credit exposures portfolio. The mortgage-secured credit exposures risk management policy should reflect the level of bank's acceptance for the risk related to this portfolio.

1.1.1. The management board of the bank should define the key areas of the policy of mortgage-secured credit exposures portfolio risk management, which will be subject to the direct control of the management board.

1.1.2. The management board of the bank should appoint members of the management board directly responsible for implementation of the key elements of the policy of mortgage-secured credit exposures portfolio risk management. This recommendation refers to, in particular, banks significantly committed to mortgage-secured credit exposures.

1.1.3. The management board of the bank may delegate all the functions related to the implementation of the remaining elements of the approved policy to persons appointed by it.

1.1.4. It is recommended that the policy of mortgage-secured credit exposures portfolio risk management contains in particular the following elements:

a) criteria of awarding credits, loans and sale of other products and services which may become in the future mortgage-secured credit exposures,

b) a system of monitoring the portfolio of mortgage-secured credit exposures, allowing to identify the threats resulting from an excessive concentration around one of the features (e.g. concentration due to the type of the real estate, sector of economy, length of the contract, method of charging interest), for which the quality rations are significantly inferior,

c) procedures of administering the credit exposures portfolio, ie.e. collecting and archiving documents, concerning the payment of subsequent tranches, and making claims in case the debtor breaches the terms of the contract,

d) principles concerning the determination, verification and update of the security value,

e) regulations specifying the method of evaluation of credit exposures, which do not meet the basic requirements defined by the banks and included in appropriate bank regulations,

f) principles of considering the foreign exchange risk and the interest rate risk incurred by the debtor.

1.1.5. The policy of the bank with respect of the portfolio of mortgage-secured credit exposures should be characterized by continuity. That is why when defining the policy for future periods, the management board of the bank should take into consideration the cyclical nature of economy and changes occurring in the very portfolio of mortgage-secured credit exposures. These changes, above all, relate to the amount of share of particular types of exposure in the portfolio and the quality and value of securities. The policy should be reviewed periodically, however in the longer term, it should be constant and it should implement the basic assumptions of the general strategy of the bank.

1.2. Recommendation 2

The supervisory board, within its functions, should supervise the application of the mortgage-secured credit exposures portfolio management policy prepared and approved by the management board of the bank.

1.3. Recommendation 3

The management board of the bank should appoint persons responsible for implementation of the policy of mortgage-secured credit exposures portfolio risk management.

1.3.1. This recommendation refers to, in particular, banks significantly committed to mortgage-secured credit exposures.

1.3.2. The basis for operation in the area related to mortgage-secured credit exposures should be formed by written procedures prepared and implemented by the bank and relating to identification, measurement, current monitoring and control of the risk related to this portfolio. All the internal procedures should be defined and compliant with external; standards and legal regulations and should correspond to the nature and profile of the operation conducted by the bank. The implementation of internal procedures should be preceded by an analysis of the bank's market position, area of operation, technological and organizational advances.

1.3.3. Persons appointed by the management board of the bank should be responsible for preparation, implementation and correct application of the internal procedures related to identification, measurement, monitoring and control of this risk. All the activities within the key area of management of portfolio of mortgage-secured credit exposures should be approved by the management board of the bank.

1.3.4. The basic tasks of the persons appointed by the management board of the bank should also include:

a) ensuring compliance of internal procedures with the policy adopted by the management board of the bank,

b) assignment of the scope of tasks and duties and responsibilities to particular employees,

c) ensuring periodic, independent control of adopted internal procedures and method of their implementation.

1.3.5. The procedures developed by the bank should, among others, specify the principles of:

a) involvement of the bank in mortgage-secured credit exposure, including tasks, duties, competencies and scope of liability relate dto the process of credit analysis and decision making with respect of involvement of the bank, including in particular relative to the evaluation of the customer's creditworthiness before the credit is granted, taking into consideration, among other, minimum revenues and amounts to be left at the disposal of the borrower after payment of all recurring liabilities (in this scope, the bank may use the behavioural scoring method),

b) relative to the change of terms and conditions of a contract being in force,

c) refinancing of credit exposures resulting from other contract,

d) pursuing claims in case of lack of servicing or delays in servicing of the credit exposure.

Other areas, in which it is required to develop written internal procedures, have been indicated in respective recommendations.

1.3.6. The adopted procedures relating to the portfolio of mortgage-secured credit exposures should be presented to the employees of the bank in the way and at dates specified by the bank. Employees which implement the bank's policy in this scope should understand its assumptions and should be accountable to their superiors for meeting all the adopted procedures and regulations.

1.4. Recommendation 4

The management board of the bank should conduct periodic evaluations of adopted policy in scope of mortgage-secured credit exposures and modify it in case new circumstances occur. The management board of the bank should inform the supervisory board about the results of the evaluation conducted.

1.4.1. The management board of the bank should conduct regular evaluation of the adopted policy of mortgage-secured credit exposures portfolio risk management, in particular by checking the correctness of the conducted operation and test the correctness and reliability of submitted reports and information. The findings of the bank's internal audit units from the conducted tests, in accordance with the adopted procedures, mode and dates, should be presented to the supervisory board and the management board of the bank, which will conduct an assessment of the audit results and determine and implement appropriate procedures.

1.4.2. The bank should have internal systems allowing the management board of the bank to assess the work of particular organizational units of the bank involved in operations related to the mortgage-secured credit exposures with respect of quality, efficiency and compliance with regulations adopted by the bank.

1.4.3. The above mentioned evaluations should be made periodically, no less than once a year, by employees not related to the process of credit analysis, credit award and credit administration. The above analyses may be made by external entities provided that the Banking Law requirements concerning the outsourcing are met.

1.4.4. As part of the internal control system, the bank should also monitor on a current basis whether the tasks and obligations related to the portfolio of mortgage-secured credit exposures are correctly performed - in accordance with internal and external regulations. The internal control system should also ensure that the exceptions from the adopted rules, applicable procedures, regulations and limits are submitted to the bank at an appropriate moment.

II. Risk control

2.1. Recommendation 5

The bank should have systems for constant monitoring of the entire portfolio of mortgage-secured credit exposures, with special consideration taken of procedures that ensure that both internal and external regulations requirements are met.

2.1.1. Internal procedures and regulations specifying the principles, methods of administering credit exposures, scope of duties and responsibility of persons should be prepared in writing and adopted by the management board of the bank. When implementing or amending internal procedures and regulations relative to monitoring of mortgage-secured credit exposures, the bank should take into consideration:

a) the quality and efficient of all operations of credit exposure administrating,

b) the precision and punctuality of periodic reporting to the management board,

c) division of duties,

d) compliance of procedures and regulations approved by the management board of the bank with external regulations.

2.1.2. Due to the specific characteristics of mortgage-secured credit exposure, the banks should provide for separate units or groups of people, whose task would be to monitor the portfolio of mortgage-secured credit exposures. Such allocation is especially recommended in case of credit exposures to households. On the other hand, in case of other customers, the bank should consider such allocation taking into consideration the technical and administrative possibilities to do it. This recommendation relates to, in particular, banks significantly committed in mortgage-secured credit exposure, which have different types of credit products in their offer.

2.1.3. Information and reports created as part of the monitoring system should allow the management board of the bank to correctly perform their duties related to management of the bank. The quality, level of detail and time limits of the collected and presented findings of analyses should allow the management board of the bank the determination whether the bank's policy in scope of mortgage-secured credit exposures is implemented and to what extent.

2.1. **Recommendation 6**

The bank should have IT systems, databases and analytic tools allowing to measure the level of the risk related to mortgage-secured credit exposures.

2.2.1. The basic objective of managing the risk related to mortgage-secured credit exposures is to maintain the level of risk related to this portfolio within the framework and scope provided for in the policy adopted by the bank. The systems of the bank should allow to obtain necessary information concerning the structure of the portfolio of mortgage-secured credit exposures in various sections, as well as its quality and changes occurring in it.

2.2.2. The bank should develop techniques used to measure the risk included i particular mortgage-secured credit exposures and in the entire portfolio of these liabilities. The risk measurement should include in particular:

a) the specificity of mortgage-secured credit exposures,

b) the profile of exposure to risk taking into consideration the correlation with changes occurring in the real estate market,

c) existence of the possibility to apply additional sureties,

d) potential value of loss resulting from failure to meet the terms and conditions of the contract.

The analysis of data defining the risk level should be performed on an on-going basis. Measuring techniques should be adapted to the level of complexity and size of the risk contained in the portfolio and the technical possibilities of the bank.

2.2.4. The bank's policy concerning the management of the risk of mortgage-secured credit exposures should specify the procedures applied in case of credit exposures at risk. Procedures in this scope should be developed in writing and approved by the management board of the bank. Internal control procedures should allow for an early identification of credit exposures the quality of which starts to deteriorate. The responsibility for execution of the adopted regulations should be assigned to a bank's organizational unit which is independent from units which handle the credit analysis and issue decisions about granting credits.

2.2.5. A particularly prudent approach should be applied to credit exposures in case of which the repayment of instalments, both interest rate and capital, is made at the end of the contract period (so-called balloon credits). The bank should develop tools relating to such type of credit exposure to be able to appropriately evaluate their risk throughout the contract duration.

2.3. Recommendation 7

The bank should have internal limits relating to the entire portfolio, particular types of mortgage-secured credit exposures and entities as well as their groups. These limits should take into consideration the differentiation of both credit exposures and securities.

2.3.1. The implemented procedures should contain an appropriate portfolio diversification compliant with the general strategy of the bank and the target area of operation. That is why an important element of managing the risk related to mortgage-secured credit exposures is the determination by the bank of the expected structure of the exposures portfolio and adapting the bank's commitment limits to this structure.

2.3.2. In order for the defined limits to meet their functions, the banks should conduct an effective measurement of the potential level of exposure to risk before implementing them. The limits, determined according to the applicable regulations, should guarantee the appropriate diversification of the mortgage-secured credit exposures portfolio. In particular, the adopted limits should relate to:

a) specific entity or group of entities,

b) specific sector of the economy,

c) debtors or securities from a specific geographic area,

d) type of credit exposure (credit, loan, off-balance-sheet liability),

e) length of the contract period,

f) currency of the credit exposure,

g) interest rate method (fixed, variable), h)

type of security.

2.3.3. The implementation of particular limits by banks and their individual values should be made dependent on the level of commitment of the bank in mortgage-secured credits. The specified limit creation criteria are therefore criteria that may be used, but are not mandatory. In justified cases, it is possible that the bank uses its own solutions in this scope.

2.3.4. Moreover, an important factor impacting the value of limits should be the extreme conditions tests taking into consideration, in particular: economic cycles, real estate market cycles, interest rate fluctuations, changes of liquidity of the banking sector and particular banks, fluctuations of the exchange rates. In banks significantly committed to mortgage-secured credit exposures, these tests should be carried out at least once a year. Tests should be carried out more frequently in case significant changes of market conditions occur.

2.3.5. Recommendations concerning the internal concentration limits relative to the whole portfolio, particular credit exposures, entities and their groups as well as control of the committment concentration listed above are a specification of the provisions of Recommendation C of the Bank Supervision Authority concerning the commitment concentration risk management of 3 March 1997 (text updated in 2002), in particular with relation to securities.

2.3.6. The information about exceeding concentration limits should be each time presented to the management board of the bank.

2.4. Recommendation 8

The bank should analyse in detail the term structure of sources of financing and adapt it to the structure of assets.

2.4.1 Bank's exposure to the risk of liquidity loss related to the portfolio of mortgage-secured credit exposures should be subject to a special analysis. This in particular related to banks with significant commitment to mortgage-secured credit exposures.

2.4.2 At least once a year, the bank with significant commitment to mortgage-secured credit exposures, which finances long-term assets with short-term liabilities, should conduct an in-depth analysis of long-term liquidity. Depending on the nature of commitment, the analysis should contain at least the following elements:

a) term structure of the significant commitment of the bank, including the analysis of quality of the mortgage-secured credit exposures,

b) policy of securing the liquidity risk, which in particular should contain a detailed description of reliable sources of long-term liquidity for the bank and an evaluation of their renewability, with special consideration of costs of obtaining such funds,

c) simulation concerning the impact of possible changes of market conditions, including the change (decrease) of the value of accepted securities to the situation of the bank.

2.4.3. The bank should undertake measures aimed at a diversification of the sources of operation financing in order to mitigate the liquidity risk, in particular long-term liquidity. These measures include, among others, securitization of liabilities based on uniform credit portfolios. Another solution possible is the use of mortgage banks operating as part of the capital group, which issue mortgage bonds secured by liabilities purchased from universal banks.

2.5. Recommendation 9

In the bank's organizational chart, the following structures should be separated:

- **related to canvassing of customers and sales of offered products,**
- **related to direct analysis of credit applications, risk evaluation and making the credit decision, as well as monitoring of mortgage-secured credit exposure during its term,**
- **related to the verification of adopted control procedures.**

2.5.1. The above division should be maintained, if possible, at all levels of the organizational structure of the bank, also in the case of banks significantly committed to mortgage-secured credit exposures also at the level of the bank's management board. In particular, this refers to processes in which technical means (e.g. scoring systems) are used. This division should also be reflected in appropriate internal procedures.

2.5.2. The separation of analytical functions as well as risk control and monitoring from sales functions is of special importance at the credit award decision-making level. It is important that the persons responsible for the analysis of credit applications and risk evaluation had a decisive voice in relation to persons related to customer canvassing and sales of products.

2.6. Recommendation 10

The bank should control on an ongoing basis whether all the terms of the contract are met by the customer and whether funds paid by the bank are used according to the contract.

Apart from the current control of compliance with the terms and conditions of the contract, it is also recommended to conduct a periodic control of other factors that may significantly impact the risk related to mortgage-secured credit exposures. In addition, the quality and the value of real estates which form the security of a given credit exposure should be controlled at regular intervals. This should be made on the basis of documents submitted by the borrower or information and data collected directly by bank's employees competent in this respect. In case of real estates financed during construction, the level of advancement of construction works and their compliance with project assumptions submitted to the bank must be controlled.

2.6.1. Additional controls of quality of both the credit exposure and the obtained security should be carried out if the bank receives information indicating a negative change of exposure to risk. Any information of this type have to be immediately reported and submitted to units and bank's employees responsible for this area.

III. Foreign exchange risk and interest rate risk of the debtor

3.1. Recommendation 11

The bank should regularly analyse the impact of exchange rate fluctuations on the credit risk incurred by the bank.

3.1.1. The below explanations concerning the recommendation refer to cases in which the debtor does not obtain regular and documented revenues in the credit exposure currency, sufficient to correctly service the credit exposure.

3.1.2. The foreign exchange risk, resulting from sudden fluctuations of the exchange rate of zloty to foreign currencies may lead to an increase of the credit risk, that is why the bank's policy with respect of currency mortgage-secured credit exposures should be especially prudent.

3.1.3. When verifying the creditworthiness of the borrower applying for a credit, loan or another product, the value of which is dependent on foreign currency exchange rates, the bank should take into consideration the foreign exchange risk resulting from the fluctuation of the exchange rate of Polish zloty to foreign currencies and its impact on the creditworthiness of the borrower.

3.1.4. It is recommended that the bank, in case of granting credits in foreign currencies, analysed the creditworthiness of the customer assuming that the interest rate for the foreign currency credit is at least equal to the interest rate for the credit in Polish zloty and the credit capital is 20% larger.

3.1.5. At least once a year, the bank should analyse the impact of the foreign exchange risk on the quality of the portfolio of mortgage-secured credit exposures and real estates which form the security.

3.1.6. At least once a year, the bank with significant commitment to mortgage-secured credit exposures should conduct extreme conditions tests in scope of impact of the foreign exchange risk of the debtor on the credit risk incurred by the bank. Tests should be carried out more frequently in case significant changes of market conditions occur. As a minimum requirement, it is recommended to carry out tests assuming a decrease of the zloty exchange rate to particular foreign currencies by 30%, and assuming that the drop of the exchange rate will be maintained for a period of 12 months.

3.1.7. It is recommended that the bank sends the results of extreme conditions tests and related assumptions to the Financial Supervision Authority. The results of extreme conditions tests should be made as part of review and updating of the bank's policy in scope of credits granted in foreign currencies.

3.1.8. The bank should not determine foreign exchange rates for credit, loan or other credit product contracts in a foreign currency or indexed to the foreign currency less favourably than for other products and transactions offered by the bank to customers. The provisions of this point of Recommendation 11 do not apply to:

a) exchange rates applied to settle credit transactions determined by external institutions independently of the bank,
b) exchange rates applied in scope of non-standard transactions concluded with the customer as a result of negotiations.

3.2. Recommendation 12

The bank should regularly analyse the impact of interest rate fluctuations on the credit risk incurred by the bank.

3.2.1. In case of credit exposures with a variable interest rate, a significant increase of the interest rates may lead to an increase of the credit risk. That is why the policy of the bank in scope of mortgage-secured credit exposures with variable interest rate should be especially prudent.

3.2.2. When verifying the creditworthiness of the borrower applying for a credit, loan or another product with variable interest rate, the bank should take into consideration the interest rate risk and its influence on the creditworthiness of the borrower.

3.2.3. In the scope of the interest rate risk, the bank should, at least once a year, analyse the impact of the interest rate risk on the quality of portfolio of mortgage-secured credit exposures.

3.2.4. At least once a year, the bank with significant commitment to mortgage-secured credit exposures should conduct extreme conditions tests in scope of impact of changes in interest rates on the quality of the portfolio of mortgage-secured credit exposures. Tests should be carried out more frequently in case significant changes of market conditions occur. As a minimum requirement, it is recommended to conduct tests with the assumption that interest rates grow by 400 base points, and assuming that the higher interest rates will be maintained for a period of 12 months.

3.2.5. It is recommended that the bank sends the results of extreme conditions tests and related assumptions to the Financial Supervision Authority. The results of extreme conditions tests should be made as part of review and updating of the bank's policy in scope of credits granted in foreign currencies.

IV. Securities

4.1. Recommendation 13

In case of mortgage-secured credit exposures the bank should analyse both the debtor's risk and the risk related to the real estate which forms the security.

4.1.1. The basis source of repayment for the bank is the revenue of the debtor. That is why even the fact that the bank accepted a mortgage security does not exclude the need to prepare a precise and detailed analysis of the credit application in compliance with internal procedures of the bank.

4.1.2. The bank should have in place appropriate internal procedures allowing for a current evaluation of the value of the real estates accepted as security of credit exposures and for evaluation of the factual possibility of using them as a potential source of making the bank's claims.

4.1.3. The analysis of the application submitted by the customer should include ratios related to the potential debtor as well as ratios related to the real estate accepted as security.

4.1.4. The bank should take into consideration the value of the security possible to obtain during a possible debt collection procedure, taking into consideration legal, economic and other restrictions that may affect the actual possibility for the bank to satisfy itself from the subject of the security. The minimum requirements to be met by the security should be set forth in internal procedures of the bank.

4.1.5. When analysing the risk related to a given security, the bank should at least take into consideration the following:

a) type of the mortgage and its impact on risk mitigation,

b) position of the bank in the order of satisfying its claims from the mortgage,

c) order of satisfying claims in case of consortium credits,

d) risk in case of security on a form of possession other than ownership, for instance cooperative right to real estate, co-ownership of the real estate, on real estates with which rights of easement are related, etc.

4.1.6. Moreover, the existing experience shows that the loss ratio of the portfolio of mortgage-secured credit exposures is higher when the real estate which forms the security of the exposure is not owned by the debtor. It is therefore recommended to pay special attention to the exposures for which the security is established on a real estate which is not owned by the debtor.

4.1.7. When analysing the risk related to a given real estate established as security of the credit exposure, and in particular, when analysing the actual possibility of satisfying the bank's claims from the given real estate, the bank should take into consideration the requirements of article 1046 of the Code of Civil Procedure (Journal of Laws of 1964, No. 43, item 296 as amended) and requirements of the Ordinance of the Minister of Justice of 26 January 2005 on the detailed mode of procedure in cases concerning the vacation of an establishment or room or surrender of real estate and detailed conditions to be met by a temporary accommodation (Journal of Laws No. 17, item 155). The bank should have in place developed procedures in case there is a need to satisfy the claim from the real estate which forms the security, taking into consideration the requirements of the regulations mentioned above.

4.1.8. The assessment of risk in case various types of mortgage (e.g. general mortgage, collateral mortgage) should be an important element of the bank's policy in scope of management of the risk of the portfolio of mortgage-secured credit exposures.

The fact of registering the collateral mortgage to the land and mortgage register of the debtor is not an argument that is clearly decisive for assessment of efficiency of this mortgage. One should consider that the mortgage is registered in a special procedure (land and mortgage register proceeding) rather than in court examination proceeding. When examining the application to register the mortgage, the court only examines the contents and the form of the application, attached documents and the contents of the land and mortgage register. In a typical situation, when the mortgage is registered based on a declaration of the bank, the compliance of the entry with the actual legal status and the efficiency of the entry in case it is appealed depend on the correctness and truthfulness of the bank's declaration rather than the entry itself, which the court is obligated to make.

4.1.9. When establishing a collateral mortgage to secure the future liabilities, one has also to consider the effects of determining the highest sum of security under this mortgage. With relation to a correctly established collateral mortgage to secure future liabilities, the limit (the highest sum) results in the fact that of the bank grants subsequent credits within the limit, they all will be secured by this mortgage. If however the bank grants further credits, these are not secured by the mortgage as not within the limit of the higher sum. The principle of accessoriness and detail of the mortgage provides that the repayment of each of the credits which (as part of the highest sum) was secured by a mortgage, does not "make place" for another credit granted on the basis of a long-term agreement. The collateral mortgage to secure future liabilities cannot be treated as a certain "mortgage facility", renewable with repayment of subsequent credits granted within the limit.

4.2. Recommendation 14

The bank should ensure that the value of the security of a mortgage-secured credit exposure be sufficient during the whole term of the contract.

4.2.1. Most frequently, the mortgage-secured credit exposures will be credits to finance real estates which in most cases are long-term credits. That is why ensuring an adequate value of the security throughout the contract duration is of special importance.

4.2.2. In case of real estates, the ratio most used to evaluate the adequateness of the security is the LtV ratio. The bank should evaluate the level of this ratio before making the decision on granting the credit, and during the term of the contract, it should monitor its level at least once a year. A more frequent monitoring should be performed in case of significant changes of market conditions.

4.2.3. Due to important differences in the level and nature of the risk related to the specificity of the real estates, it is recommended that the bank determines the maximum LtV ratio level for different types of securities. One of the most important factors taken into consideration when determining the maximum level of the LtV ratio includes the level of recoverability of funds committed by the bank from a given type of security. For this, the bank should collect data about the amount or funds recovered by way of debt collection from particular types of security. Other criteria the bank should consider while determining the maximum levels of the LtV ratio include:

a) type of the real estate (e.g. residential real estate or commercial real estate),

b) period of the contract (the longer the term of the contract, the more prudent the

LtV ratio should be),

c) currency of the credit exposure (in case of foreign currency, it is necessary to include the band of fluctuations of a given currency type the national currency while determining the LtV ratio). One should also verify whether the contract provides for the possibility of changing the currency.

d) method of interest rate (fixed - lower requirements, variable - higher requirements),

e) form of ownership - there is a different risk in case of ownership and a different one in case of, for instance, cooperative right to the premises,

f) value of a possible additional (apart from the mortgage) security of the credit exposure (e.g. insurance).

The maximum levels of the LtV ratio determined based on the above criteria should be included in internal procedures of the bank.

4.2.4. Monitoring of changes of the value of the LtV ratio aims to allow the bank to quickly respond to an increase of the LtV ratio value, in particular when the determined maximum limits are exceeded. Also in this scope, the bank should have in place internal regulations and procedures made in writing, determining the method of the bank's response to the changes of the LtV ratio value, which in particular should relate to:

a) application of additional securities,

b) change of security,

c) partial or complete termination of the contract, e)

renegotiation of the terms of the contract.

4.3. Recommendation 15

The bank should have appropriate procedures and tools used to verify and update the value of real estates which form the security of the credit exposures held by the bank.

4.3.1 The policy of the bank in scope of determination of the value of the real estate forming the security should be especially prudent. A correct analysis of the real estate valuation made by the bank requires a complete understanding of the approaches, methods and techniques used in the valuation process. The analyses made by the bank should take into consideration various areas related to the specificity of the security.

4.3.2 The management board of the bank should be responsible for adopting internal regulations and procedures concerning the verification of the value of security, and the persons appointed by the management board of the bank should be responsible for implementation of the procedures and regulations adopted by the management board.

4.3.3 As part of verification of the real estate valuations made both by order of the bank and delivered by the customers, the bank should perform a control of credibility and reliability of assumptions and market parameters adopted for the purposes of the appraisal prepared by the real estate surveyor, in which the real estate valuation process is presented. The level of parameters adopted by the real estate surveyor in the valuation of the real estate should be verified by the bank based on available databases concerning the real estate market and the bank's experience, as it is the bank which is responsible for the quality of the credit and the risk incurred. The level of the real estate value thus verified by the bank should forma point of reference for the determination of the amount of the credit (e.g. when taking into consideration the assumed LtV level).

4.3.4. The bank should perform a periodic verification of the value of the real estates forming the security of credit exposures held by way of comparing the value from the valuations with the amount of funds recovered by way of execution of the security. For this, the bank should implement an internal procedure specifying the scope, the methods and the frequency of verification as well as the procedure in case of finding significant discrepancies. When at the bank, frequent cases of significant discrepancies between the value from the valuation and the value of funds recovered by way of execution of the security are found, the management board of the bank should modify the adopted policy in scope of verification and updating of the security value.

4.3.5. In order to determine the value of the security, for the needs of risk management related to mortgage-secured credit exposures, including for the need of calculation of the LtV ratio, the bank may use data from reliable databases. The reliability of the database is evaluated by the bank; the evaluation is submitted to the Bank Supervision Commission, which may not consider the database as reliable, if the database:

- does not allow for a correct and reliable determination of the security value,
- does not contain a sufficient amount of data of appropriate quality,
- does not meet other requirements specified in Recommendation J of the Bank Supervision Commission of 20 July 2000 concerning the creation of databases relative to the real estate market by banks.

4.4. Recommendation 16

The bank should monitor on a continued basis the changes occurring on the real estate market, and at least once a year, it should conduct a verification of the value of the real estates which form a security of the credit exposures held by the bank.

4.4.1. A more frequent verification should be performed in case of significant changes of market conditions. If there are premises indicating that the value of the real estate could drop significantly with relation to the market value of other real estates with similar features, a revaluation of the real estate should be made. In case of individually significant credit exposures as of the verification date, a revaluation should be made at least once every three years. A more frequent verification of the value of security may be needed in case there are premises of loss of value of the credit exposure and there is a risk that the value of the security will be lower than the value of the credit exposure.

4.4.2. In case of mortgage-secured credit exposures which are not individually significant, the banks has the possibility to apply simplified methods of verification of the security value based on statistical methods.

4.4.3. The revaluation may not be needed when appropriately trained employees of the bank verify the initial assumptions of market parameters adopted for the needs of the appraisal prepared by the real estate surveyor and check whether these assumptions remain at an unchanged level or their change is not significant enough to impact the valuation of the real estate. This verification should be appropriately documented and presented in writing.

4.4.4. If as a result of initial analysis it turns out that a significant change of previous assumptions occurred, it is recommended to prepare a new valuation. This means that the bank should conduct market monitoring and monitoring of assumptions and legal and economic framework which were adopted for the needs of valuations and which significantly impact their values

4.5. Recommendation 17

The bank should have appropriate procedures allowing to undertake quick prevention measures in case unforeseen events occur which result in a decrease of the value of the real estates which form the security of the credit exposures of the bank.

4.5.1. The bank should have in place determined internal procedures in writing concerning the procedure in case of sudden changes of the value of security. Simulation models and extreme conditions tests may be helpful in determining these procedures, as they allow to simulate the behaviour of the entire portfolio and particular mortgage-secured credit exposures in case significant changes of the real estate value occur, and above all, they allow to assess the results of these changes.

4.5.2. At least once a year, the banks with significant commitment to mortgage-secured credit exposures should conduct extreme conditions tests in order to evaluate the influence of sudden changes of the security value to the quality of portfolio of mortgage-secured credit exposures. Tests should be carried out more frequently in case significant changes of market conditions occur.

4.6. **Recommendation 18**

Special attention should be paid to those mortgage-secured credit exposures where the value of the real estate depends to a large extent to the financial standing of the debtor or the financial standing of the debtor depends largely on changes in the real estate value. \

4.6.1. The above recommendation relates in particular to financing of purchase, construction, adaptation etc. of commercial real estates by the bank. In such case, the bank when analysing the credit application should pay special attention to: the sources of credit repayment (e.g. rent agreements signed before or during project execution), terms and conditions of rent agreements.

4.6.2. When evaluating the mortgage-secured credit exposure in the portfolio, the bank should evaluate the legal and financial structure of the project, taking into consideration the concluded and effective contracts and binding declarations which mitigate particular risks of the project, with special consideration of financial assumptions of the project which were the basis of granting the credit, loan, etc.

V. Relations with customers

The recommendations below and the related explanations relate to cases when consumers are the customers of the banks.

5.1. Recommendation 19

The bank should make all efforts to ensure that the information communicated to the customers are understandable, unequivocal and legible.

5.1.1. This relates to information presented both before and after the contract is signed. The bank should take into consideration the level of knowledge of the customer, who in most cases is not a specialist in banking.

5.1.2. Before concluding the contract, the customer should receive all the information important for the assessment of risk and costs related to the contract conclusion, including in particular information about foreign exchange risk, variable interest rate risk and influence of the currency spread on charges related to credit repayment. This information should be presented in writing (e.g. as specified in points 5.1.10 and 5.1.11). Before concluding the contract, the customer should also receive all the important information concerning the terms and conditions of the contract, in particular in scope of rights and obligations of the customer under this contract. At the request of the customer, the bank should also provide him/her with a draft contract. The bank should provide any additional explanations and information requested by the customer.

5.1.3. When submitting the contract to the customer for signing, the bank should provide the customer with time needed to read the contents of the contract and analyse the terms proposed in it, so as to allow the customer to make a decision about signing the contract with full knowledge of terms and conditions contained in the contract, after all the necessary information and explanations were provided to the customer.

5.1.4. The bank should regularly provide its customers with all information concerning the terms and conditions as well as rights and obligations under the contract. In particular, the customer should be informed in writing about any changes which directly influence the terms and conditions of the credit contract, in particular the level of charged for credit repayment (e.g. change of interest rates, terms of defining the currency spread). Upon consent of the customer, such information may be submitted in other form than in writing (e.g. by Internet).

5.1.5. The bank should present to the borrowers the information about the total cost of credit and actual annual interest rate taking in consideration the costs known at the moment of contract conclusion. This purpose should be also met by including, in announcements and ads about the credit which contain the terms and conditions of the credit, the actual annual interest rate calculated from the total cost of credit.

5.1.6. The bank should also present to the customer any additional information related to the mortgage-secured credit exposure requested by the customer, provided the access to this information is compliant with the regulations of the Banking law on banking secret, personal data protection act and internal regulations.

5.1.7. It is recommended that the banks offered to customers credits, loans or other products in zlotys in the first place. The bank may offer credit, loan or other product in a foreign currency or indexed to the foreign currency only after the bank's customer submits a written declaration confirming that he/she selected the foreign currency credit or credit indexed to the foreign currency being fully aware of the foreign exchange risk related to credits, loans and other products taken in the foreign currency or indexed to the foreign currency and of the influence of currency spread to the amount of the provided credit and the amount of charge in credit repayment.

5.1.8. The bank should have in place internal procedures made in writing specifying the method and the scope of informing each customer taking up the credit or the loan in a foreign currency or indexed to the foreign currency about the related risk and its consequences as well as of the influence of currency spread to the amount of the provided credit and the amount of charge in credit repayment. Any questions and doubts in this scope should be explained to the customer by an appropriately trained employee having the necessary knowledge about threats related to the mortgage-secured credit exposures foreign exchange risk. The above principles also apply to credit exposures other than credits and loans.

5.1.9. The bank should have in place internal procedures made in writing defining the method and the scope of informing each customer taking up the credit or the loan with a variable interest rate about the related risk and its consequences. Any questions and doubts in this scope should be explained to the customer by an appropriately trained employee having the necessary knowledge about threats related to the mortgage-secured credit exposures interest rate risk. It is recommended that the customer taking up a credit or loan with a variable interest rate signed a declaration that he/she was informed by the bank about the interest rate risk and that he/she is aware of incurring such a risk. The above principles also apply to credit exposures other than credits and loans.

5.1.10. In order to ensure the comparability of policies relative to determination of currency spreads applied by the banks, the bank should ensure a possibility of free access of customers to information about foreign exchange rates applied by the bank, and in particular in form of a set of information in scope of:

a. foreign currency purchase and sales rates applied by the bank (this information should relate to all the foreign exchange rate tables published by the bank for the period of repayment of active credits).

b. separate statement of currency spreads applied by the bank (this information should relate to all the foreign exchange rate tables published by the bank for the period of repayment of active credits).

The minimum scope of presented information should encompass the period from 1 January 2008, unless the bank is able to provide a longer history of data.

5.1.11. It is recommended that the bank, when presenting to the customer the offer of the credit, loan or another product, in the foreign currency or indexed to the foreign currency, calculated the amount and the costs of credit according to currency exchange rates used by the bank and informed the customer about the costs of servicing of credit exposure in case of a change of the exchange rate and currency spread which is disadvantageous for the customer. Such information may be submitted in form of a simulation of credit instalments, for example. The information submitted to the customer should contain in particular:

a. costs of servicing of the credit exposure at the current level of exchange rate of the Polish zloty to the credit exposure currency, without any change of interest rates.

b. costs of servicing of the credit exposure assuming that the interest rate for the credit exposure currency is equal to the interest rate for the Polish zloty and the capital of the credit exposure is 20% higher.

c. costs of servicing of the credit exposure with a depreciation of the exchange rate of the Polish zloty to the credit exposure currency at a level corresponding to the difference between the maximum and minimum exchange rate of the Polish zloty to the credit exposure currency within the last 12 months, without any change of interest rates.

d. costs of servicing of the credit exposure with a change of the currency spread at a level corresponding to the difference between the maximum and minimum currency spread within the last 12 months, without any change of interest rates or exchange rates.

5.1.12. It is recommended that the bank, when presenting to the customer the offer of the credit, loan or another product with a variable interest rate, informed the customer about the costs of servicing of the credit exposure in case of change of the interest rate level which is disadvantageous for the customer and on which the interest rate of the credit exposure depends. Such information may be submitted in form of a simulation of credit instalments for the credit exposure, for example. The information submitted to the customer should contain in particular:

a. The costs of servicing of the credit exposure at the current level of the interest rate, on which the interest rate of the credit exposure depends.

b. The costs of servicing of the credit exposure with an increase of the interest rate, on which the interest rate of the credit exposure depends, by 400 base points.

c. The costs of servicing of the credit exposure with an increase of the interest rate, on which the interest rate of the credit exposure depends, at a level corresponding to the difference between the maximum and the minimum level of the interest rate within the last 12 months.

5.2. Recommendation 20

In relations with customers, in the operational area related to mortgage-secured credit exposures, the bank should apply the principles of professionalism, reliability, diligence and best knowledge.

5.2.1. The credit contract should be concluded in writing and the lender is obligated to hand the contract to the borrower when it is signed. It is recommendable that the contract contains, apart from the elements indicated in article 69 of the Banking law:

a) fees and other costs related to granting of the credit, including fee for examination of the credit application and preparation and conclusion of the credit contract which are an element of the total cost of credit and the terms relative to their change, information about the total cost of credit and actual annual interest rate, including the costs known at the moment of contract conclusion,

b) total amount of all liabilities to the payment of which the borrower is obligated (except for mortgage-secured credit exposures based on a variable interest rate),

c) information about rights and effects of earlier repayment of credit,

d) information about the time limit and the method of executing the right to withdraw from the contract by the borrower,

e) information about the effects of failure to meet the terms of the contract, in particular in scope of the method and time limits of repayment of the mortgage-secured credit exposure.

Each contract relating to the currency credit exposures should at least contain provisions concerning the following:

a) the value of the credit exposure in foreign currency (in case of credit exposures indexed to the foreign exchange rate, it is allowed to inform the customer about the value of the credit exposure and the amount of capital and interest instalments in the foreign currency separately once the credit is disbursed),

b) amount of capital instalments and interest instalments in the foreign currency,

c) methods and time limits of determination of the foreign exchange rate based on which, in particular, the amount of the disbursed credit the amount of credit tranches and capital and interest rates are calculated, as well as the principles of conversion of disbursement and repayment of credit to the currency.

d) information that the change of the exchange rate will impact the value of the credit exposure and the amount of capital and interest instalments,

e) information that the change of the currency spread will impact on the value, expressed in Polish zlotys, of the disbursed credit in the foreign currency and on the amount of capital and interest instalments of the credit,

f) terms and consequences of changes in credit exposure currency.

Each contract relating to the credit exposures with variable interest rate should at least contain provisions concerning the following:

a) methods and time limits of determining the interest rate based on which the amount of capital and interest instalments is calculated,

b) information that the change of the interest rate will impact the value of the credit exposure and the amount of capital and interest instalments,

c) terms and consequences of change of the method of interest rate.

At the request of the customer, the bank should change the method of repayment of the credit indexed to the foreign currency so that the repayment is made in the indexation currency. The change of the method of repayment should apply to all instalments from the date of contract amendment. In the credit contract, the bank cannot limit the possibility for the customer to obtain foreign currency intended for credit repayment to the scope of services offered by the bank.

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